

# Application of EVM to Contracts

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➤ **Note:** This document is for reference only and not all inclusive of information contained in source references

## Basic Earned Value Management (EVM) Requirements

### EVM Applicability

- EVM applies to cost or incentive contracts valued at \$20M or more
- EVM may be imposed on contracts valued less than \$20M as a risk-based decision by the program manager based on a cost-benefit analysis
- EVM is discouraged for Firm-Fixed-Price (FFP) contracts, except when a FFP contract valued at \$20M or more is used for development work; this exception requires a Milestone Decision Authority (MDA) waiver

### Earned Value Management System (EVMS)

- An EVMS is required on all cost or incentive contracts equal to or greater than \$20M
- An EVMS must be in compliance with guidelines stated in EIA-748<sup>1</sup> as interpreted for DoD in the Earned Value Management System Interpretation Guide (EVMSIG)
- A **formally approved** EVMS is required for cost or incentive contracts valued at \$100M or more

For more information, see the *DoD Instruction (DoDI) 5000.02 EVM Policy Guidance* on page 6.

## EVM Statement of Work and Contract Requirements

### Statement of Work (SOW)

- EVMS
  - The SOW shall not contain guidance or direction that conflicts with, removes, or adds work scope to the contractor's approved EVMS (required by imposition of Defense Federal Acquisition Regulation Supplement (DFARS) 252.234-7002)
  - For guidance on compliance of the contractor's EVMS, consult the Defense Contract Management Agency (DCMA) or the NAVSEA Supervisor of Shipbuilding (SUPSHIP)

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<sup>1</sup> EIA-748: Electronic Industries Alliance Standard 748, Earned Value Management Systems

- The SOW shall not remove or redact any of the applicable Data Item Descriptions (DID) required by DFARS 252.234-7002 without MDA approval (U.S. Navy Center for Earned Value Management Analysis Toolkit)
- The SOW shall not add scope to the Integrated Program Management Report (IPMR) DID without MDA approval (U.S. Navy Center for Earned Value Management Analysis Toolkit)

## DFARS Clauses

- DFARS 252.234-7001—Notice of Earned Value Management System (Apr 2008)
- DFARS 252.234-7002<sup>2</sup>—Earned Value Management System (May 2011)
- DFARS 252.242-7005—Contractor Business Systems (May 2011)

For more information, see *EVM DFARS Clauses* on page 9.

- The Federal Acquisition Regulation (FAR) contains EVMS clauses for use by the Federal civilian agencies; however, on DoD contracts, the DFARS EVMS clauses will be used instead of the FAR EVMS clauses (see DFARS 234.203)
- The contract shall not contain special clauses or provisions in Section H that conflict with, remove, or add work scope to the contractor's approved EVMS (required by imposition of DFARS 252.234-7002<sup>3</sup>); consult DCMA or SUPSHIP for guidance on compliance of the contractor's EVMS

## Section M—Evaluation Factors for Award

- Include consideration for approved EVMS (if applicable) or viable plan to achieve system approval
- For more information, visit the following online sources:
  - PARCA EVM website: <http://www.acq.osd.mil/evm/>
  - DAU EVM Community of Practice (CoP) website: <https://acc.dau.mil/evm>
  - DAU Contracts CoP website: <https://acc.dau.mil/CommunityBrowser.aspx?id=406579&lang=en-US>

## Cost Plus Award Fee (CPAF) Type Contracts

### General Contract Characteristics

- An award fee contract is a form of incentive contract
- Unlike other types of contracts, the award fee contract does not include predetermined targets and automatic fee adjustment formulas, but does typically include a base fee in addition to the available award fee amount

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<sup>2</sup> Superseded by Interim Deviation (SEP 2015)

<sup>3</sup> Superseded by Interim Deviation (SEP 2015)

- Award fee contracting recognizes and rewards the contractor for performance that exceeds the performance targets established in the contract, including technical, schedule, and cost
- Contractor performance is motivated by fee adjustments based on a subjective evaluation of contractor performance in areas such as quality, timeliness, technical ingenuity, and cost-effective management
- The Contract Pricing Reference Guide (CPRG) contains guidance for the award fee concept. The CPRG guidance is based on FAR 16.405-2. You can access the CPRG on the Acquisition Community Connection (ACC) at:  
<https://acc.dau.mil/CommunityBrowser.aspx?id=406579>

## EVM Award Fee Criteria

- Award fee criteria should be carefully selected to properly motivate the contractor's management and performance during the award fee period
- Qualitative criteria are generally recommended, but clear distinctions should be established between the performance levels to guide the Program Management Office (PMO) when evaluating performance
- The PMO should establish the criteria to motivate and encourage improved management processes during the contract period, keeping in mind that recognizing improvements in integrated program management result in more long-lasting improvement in cost and schedule performance
- If qualitative criteria are difficult to support during the evaluation process, the PMO should consider using subjective criteria for EVMS performance results
- The goal for EVM award criteria is to motivate proactive, innovative, and effective performance management with EVM
  - Award fee criteria should be based on the degree of effective management with EVM and can be a mix of qualitative and subjective measures
  - The PMO should aim for 75% of the criteria to focus on effective management with EVM and a 25% focus on discipline/consistency
- Suggested categories for EVM award fee criteria include:
  - Management
    - EVM is effectively integrated and used for program management
    - Prime contractor's management of major subcontractors
    - Realistic and current budgets, expenditures, and schedule forecasts
    - Adequacy of cost proposals submitted during award fee period
  - Cost control
    - Meaningful variance analysis
    - Timely incorporation of changes to the performance measurement baseline (PMB)

- Discipline
  - Accuracy, timeliness, and consistency of billings and cumulative performance data
  - Accuracy of integration of subcontractor data
  - Baseline discipline and system compliance

## EVM Metrics

- While it seems obvious that EVM metrics, such as variances or indices, seem tailor-made to provide incentives to the contractor in an award fee environment, experience shows otherwise
  - Using EVM metrics such as cost or schedule variances, cost or schedule performance indices, or VACs to measure performance for award fee purposes should be avoided
  - EVM metrics may result in overstating of performance or other improper actions that could undermine the EVMS
  - EVM metrics may lead to frequent baseline changes for short-term profit gain and generally have not resulted in better cost control
- Cost performance may be more directly incentivized through the use of a cost-plus-incentive-fee (CPIF) contract rather than an award fee contract
- The Integrated Baseline Review (IBR) or other management, technical, or program milestones should not be used as a basis for award fee
  - Establishing award fee metrics based on hard dates for either the IBR or other management milestones may force the conduct of these reviews, even if the contractor is not ready for the review
  - The technical completion of work to an established baseline evaluation criteria is one way of objectively evaluating and rewarding the contractor based on success to a baseline plan

## Data, Reporting, and Review Requirements

### Integrated Program Management Reports (IPMRs)

IPMR DID number DI-MGMT-81861 (current version) is required whenever EVM is required (see the sample SOW paragraph for the IMS on page 10).

- The IPMR Contract Data Requirements List (CDRL) for contracts of \$50M or greater requires all seven IPMR formats
- The IPMR CDRL for contracts less than \$50M may tailor the DID to accommodate. Program information needs to be consistent with the information provided on page 6 of this document and the IPMR Implementation Guide, which may be accessed from the PARCA EVM website: <http://www.acq.osd.mil/evm/>

## Contract Work Breakdown Structure (CWBS)

- A product-oriented CWBS, in accordance with MIL-STD-881 (current version) and the CWBS DID (DI-MGMT-81334C), is mandatory when EVM is implemented and Formats 1-7 are required

## Contract Funds Status Report (CFSR)

- A CFSR (DI-MGMT-81468) is required for all contracts longer than six months in duration
- The CFSR does not have specific dollar thresholds, but application to contracts valued less than \$1.5M should be carefully evaluated

## Integrated Baseline Reviews (IBRs)

IBRs are required whenever EVM is applied to cost or incentive contracts valued at \$20M or more (see the sample SOW paragraph for IBRs on page 10).

## DoD Instruction (DoDI) 5000.02 EVM Policy Guidance

① *For a summary description of DoDI 5000.02, see **Appendix A**.*

### Policy References

- DoDI 5000.02, Encl. 1 Table 8 and Table 9
- DPAP Tracking Number: 2015-O0017, Class Deviation – Earned Value Management System Threshold Memo, 28 Sep 2015

DODi 5000.02 Enclosure 1 Table 8  
EVM Applicability

| Contract Value     | Applicability   | Notes  | Source   |
|--------------------|---|--|--|
| < \$20M            | EVM not required; may be applied at PM discretion based on risk to the Government   | Requires business case analysis and MDA approval   |  |
| ≥ \$20M & < \$100M | EVM Required; contractor is required to have an EVMS system (EVMS) that complies with the guidelines in EIA-748*                  | The Government reserves the right to review a contractor's EVMS when deemed necessary to verify compliance   | Part 7 of OMB Circular A-11 (Reference (c)); DFARS 234.201 (Reference (a)); This instruction |
| ≥ \$100M           | EVM Required; contractor is required to have an EVMS that has been determined to be in compliance with the guidelines in EIA-748* | The Contractor will provide access to all pertinent records and data requested by the Contracting Officer or duly authorized representative as necessary to permit initial and ongoing Government compliance reviews to ensure that the EVMS complies, and continues to comply, with the guidelines in EIA-748*. |  |

**Additional Information**

For ACAT ID and IAM programs, OSD USD(AT&L) Performance Assessments and Root Cause Analyses (PARCA), in coordination with the CAE or designee, will review proposed contract work scope for EVM applicability and provide a recommendation to the DAE/MDA for a determination of EVM applicability. For all other ACAT levels, the CAE, or designee, will review and determine EVM applicability. If EVM is determined to apply, then threshold application in this table is utilized or a waiver from the CAE is required. If, based on the nature of the work, EVM is determined not to apply, then EVM is not placed on contract.

Applying EVM outside the thresholds and criteria above, to include application on firm, fixed-price (FFP) contracts, FFP task orders, or FFP delivery orders, a cost-benefit analysis will be conducted, MDA approval is required, and the results provided to the contracting officer for documentation in the contract file.

The term "contracts" includes contracts, subcontracts, intra-government work agreements, and other agreements.

For indefinite delivery, indefinite quantity (IDIQ) contracts, inclusion of EVM requirements is based on the estimated ceiling of the total IDIQ contract, and then is applied to the individual task/delivery orders, or group(s) of related task/delivery orders, that meet or are expected to meet the conditions of contract type, value, duration, and work scope. The EVM requirements should be placed on the base IDIQ contract and applied to the task/delivery orders, or group(s) of related task/delivery orders. "Related" refers to dependent efforts that can be measured and scheduled across task/delivery orders.

The integrated Baseline Review is required when EVM is determined to be applicable.

The initiation of an over-target baseline or over-target schedule must be approved by the Government program manager.

Application thresholds are in then-year dollars.

\* EIA-748 = Electronic Industries Alliance (EIA) 748-C (Reference (a))

DODi 5000.02 Enclosure 1 Table 9  
EVM Reporting

| <b>Contract Value</b>  | <b>Applicability</b>                                 | <b>Notes</b>  | <b>Source</b>            |
|--|--|---|--------------------------|
| < \$20M  | Not required   | IPMR Should be used if cost and/or schedule reporting is requested by the PMO   | IPMR DID DI-MGMT-81861A* |
| ≥ \$20M & < \$50M  | Required monthly when EVM requirement is on contract | Formats 2, 3, and 4 may be excluded from the contract data requirements list (CDRL) at program manager discretion based on risk |                          |
| ≥ \$50M  | Required monthly when EVM requirement is on contract | All Formats must be included in the CDRL  |                          |
| <b>Additional Information</b>  |  |   |                          |
| <p>For ACAT I contracts, task orders, and delivery orders, IPMR data will be delivered to the EVM Central Repository.</p> <p>The IPMR can be tailored to collect cost and/or schedule data for any contract regardless of whether EVM is required. For information on tailoring the IPMR, refer to the DoD IPMR Implementation Guide (Reference (cj)).</p> <p>Formats and reporting requirements for the IPMR are determined and managed by USD(AT&amp;L) through the office of PARCA.</p> <p>Reporting thresholds are in then-year dollars.</p> <p>DI-MGMT-81861A = Data Item Management-81861 (Reference (av))</p> |  |   |                          |



## EVM DFARS Clauses

| Title of Clause   | Location Used   | Clause No.         |
|---|---|--------------------|
| Notice of Earned Value Management System (May 2011)                           | Used in solicitations when the intent is to invoke compliance with the EVMS guidelines in EIA-748 and the EVMSIG. (See Statement of Work (SOW) paragraph entitled, "Contractor Integrated Performance Management".)   | DFARS 252.234-7001 |
| Earned Value Management System (May 2011)<br>Interim Class Deviation Jan 2016 | Used in solicitations and contracts when the intent is to invoke compliance with the EVMS guidelines in EIA-748 and the EVMSIG. The appropriate DID to be cited in the CDRL is DI-MGMT-81861 (current version), the IPMR. (See SOW paragraphs entitled, "Contractor Integrated Performance Management" and "Integrated Master Schedule".) | DFARS 252.234-7002 |
| Contractor Business Systems (Feb 2012)  | This clause only applies to covered contracts that are subject to the Cost Accounting Standards under 41 U.S.C. chapter 15, as implemented in regulations found at 48 CFR 9903.201-1 (see the FAR Appendix).  | DFARS 252.242-7005 |

Note: The contract shall not contain special clauses or provisions in Section H that conflict with, remove, or add work scope to the contractor's approved EVMS (required by imposition of DFARS 252.234-7002). Consult DCMA or SUPSHIP for guidance on compliance of the contractor's EVMS.

## Statement of Work Paragraph Examples

### Contractor Integrated Performance Management

The contractor shall establish, maintain, and use in the performance of this contract, an integrated performance management system. Central to this integrated system shall be an approved Earned Value Management System (EVMS) in accordance with Defense Federal Acquisition Regulation Supplement (DFARS) 252.234-7001, DFARS 252.234-7002, and the EVMS guidelines contained in EIA-748 and the EVMSIG. To establish the integrated performance management system, the EVMS shall be linked to and supported by the contractor's management processes and systems to include the integrated master schedule, Contract Work Breakdown Structure (CWBS), change management, material management, procurement, cost estimating, and accounting. The correlation and integration of these systems and processes shall provide for early indication of cost and schedule problems, and their relation to technical achievement. (DI-MGMT-81861 (current version))

### Integrated Master Schedule (IMS)

The contractor shall develop and maintain an Integrated Master Schedule (IMS) by logically networking detailed program activities. The schedule shall contain the planned events and milestones, accomplishments, exit criteria, and activities from contract award to the completion of the contract. The contractor shall quantify risk in hours, days, or weeks of delay and provide optimistic, pessimistic, and most likely duration for each IMS activity and event. (DI-MGMT-81861 (current version))

### Integrated Baseline Reviews (IBRs)

The contractor shall engage jointly with the Government's program manager in Integrated Baseline Reviews (IBRs) to evaluate the risks inherent in the contract's planned performance measurement baseline (PMB). Initially, this shall occur as soon as feasible but not later than six months after contract award, and subsequently following all major changes to the baseline. Each IBR should verify that the contractor is using a reliable PMB, which includes the entire contract scope of work, is consistent with contract schedule requirements, and has adequate resources assigned. Each IBR should also record any indications that effective Earned Value Management (EVM) is not being used. IBRs should also be conducted on subcontracts that meet or exceed the EVM application threshold. The prime contractor shall lead the subcontractor IBRs, with active participation by the Government. (See DFARS 252.234-7002)

## Appendix A

### DoD Instruction (DoDI) 5000.02 EVM Policy Guidance with DPAP Interim Deviation Impact—Summary

FFP contracts do not have mandatory EVMS surveillance/compliance requirements. The EVM IPMR reporting requirements are at the PM's discretion, and only Format 6 may be elected to be received. Applying EVM DFARS clauses to an FFP contract is a PM risk-based decision that requires obtaining a waiver from the MDA.

Cost reimbursement and incentive contracts less than \$20 million do not have mandatory EVMS surveillance/compliance requirements or mandatory EVM IPMR reporting requirements. A tailored IPMR may be used for reporting, and applying EVM DFARS clauses is a PM risk-based decision.

Cost reimbursement and incentive contracts greater than or equal to \$20 million but less than \$50 million must comply with the EIA-748 EVMS surveillance and compliance requirements. Formal EVMS approval is not required, and EVMS surveillance is only conducted for cause. The IPMR is required but may be tailored; Formats 1, 5, 6, and 7 are mandatory. The EVM DFARS requirement applies.

Cost reimbursement and incentive contracts greater than or equal to \$50 million but less than \$100 million must comply with the EIA-748 EVMS surveillance and compliance requirements. Formal EVMS approval is not required, and EVMS surveillance is only conducted for cause. All 7 Formats of the IPMR are required, and the EVM DFARS requirement applies.

Cost reimbursement and incentive contracts greater than or equal to \$100 million must comply with the EIA-748 EVMS surveillance and compliance requirements. Formal EVMS approval is required, and routine EVMS surveillance is performed. All 7 Formats of the IPMR are required, and the EVM DFARS requirement applies.